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SUBJECT: GOT MILK? - SHANGHAI THIRSTY FOR FOREIGN IMPORTS

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11. (SBU) SUMMARY: Shanghai stores have sold out of imported milk in the wake of the recent melamine scandal. Chinese authorities maintain that there has been no change in China's import milk regulations, but some retailers and consumers believe that a slowdown of imports is a deliberate move to protect the domestic milk industry. The problem seems unique to Shanghai, highlighting the differences in the local market compared to other cities in China and may suggest a lack of confidence in food safety measures among locals. At this stage, the Consulate has seen no indication that the shortage of imported milk is anything more than a supply and demand problem brought on by hoarding. END SUMMARY.

12. (SBU) As a result of the early September revelation that Chinese-produced milk and infant formula has been found to be contaminated with the industrial chemical melamine, major grocery stores around Shanghai have completely sold out of imported UHT milk (ultra-high temperature processed milk, i.e., long-life boxed milk) during the week of November 10, with scattered shortages noted earlier in the month. While large quantities of imported boxed milk could be seen prominently displayed in central locations in many stores in early October (a month after the melamine scandal was reported in the media), over the past two weeks all that can be found on shelves are a few boxes of imported rice milk and even fewer boxes of fortified soy milk. The unavailability of imported UHT milk has caused some to suggest that the Chinese government is purposely "banning" or "holding up" imported milk in an effort to protect the domestic milk industry.

13. (SBU) Shanghai Consulate's Agriculture Trade Office contacted ZHOU Guoliang, Director, Division of Supervision of Animals and Plants, Shanghai Entry-Exit and Quarantine Bureau (CIQ). He said that there has been no change in China's import milk regulations. He indicated that CIQ has conducted random checks on imported milk for melamine (as it has done for the domestic supply since the dairy crisis first occurred), but maintained that these quality supervision checks have not slowed the release of foreign product onto the market and that no foreign product has been found to contain melamine. (NOTE: According to a local retail chain manager, CIQ inspects imported milk products because some imports could incorporate milk powder of Chinese origin. END NOTE.) Zhou also offered that some

commodity imports as a whole have declined recently, which he attributed to the global financial crisis -- people have less money in their pockets and therefore are buying fewer imported, often more expensive products.

14. (SBU) The response from local grocery retailers has been similar to CIQ. While some store managers at smaller shops believe that there is a nefarious reason to the abrupt shortage, most attribute the bare shelves to supply and demand. Local retailers indicate that they just did not anticipate such a steep increase in the demand for imported milk. Jina Jiang, Import Product Manager from Carrefour, said that more stock is on the way and that in the next week or so Carrefour would have a more stable supply. Sherry Xie, a manager from the Chinese-owned Shanghai specialty food retailer City Shop also agreed that exporters could not meet the increasing demand; however, she believed that the import inspection of dairy products for melamine has slowed the release of imports onto the Chinese market. Generally, the distribution system cannot respond too quickly to an import shortage because demand for dairy product worldwide is up and major exporting countries are far from China.

COMMENT

15. (SBU) Since other cities (such as Beijing and Guangzhou) reportedly have imported milk still available in albeit limited, but still sufficient quantities, it is interesting that this shortage appears to be primarily a Shanghai problem. Shanghai is a different market than other Chinese cities; it has a sizeable expatriate population (approximately 134,000 registered

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foreigners as of 2007) and a local market historically more open to Western ideas and products. With expatriates only accounting for roughly 0.7 percent of Shanghai's 18.58 million official residents, the run on milk suggests that locals may be purchasing the imported products not just for affluence, but due to a lack of confidence in food safety authorities who have claimed that domestic milk is now perfectly safe for consumption.

16. (SBU) While some believe that the milk shortage is a result of protectionist measures, we have seen no indication that this is anything more than a supply and demand problem brought on by continued distrust of local milk. We will continue to monitor the situation to see if the stock of imported milk becomes more stable in the coming weeks.

CAMP